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C O N F I D E N T I A L SECTION 01 OF 03 NEW DELHI 003147

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TAGS: EAIR BEXP IN

SUBJECT: BOEING WINS \$8.5 BILLION AIR INDIA ORDER, LARGEST COMMERCIAL AIRCRAFT DEAL IN WORLD IN PAST YEAR

REF: A. 2004 NEW DELHI 8096/8024

1B. 2004 NEW DELHI 7702/7530/7343
1C. 2004 NEW DELHI 6604/5054/4682 3587/3186/140
1D. 2003 NEW DELHI 6556
1E. 2003 NEW DELHI 6232
1F. 2003 NEW DELHI 5978/5639/4628/4274/4212
1G. 2003 NEW DELHI 3305/3042/2242/2212/2080
1H. 2003 NEW DELHI 2624
1I. 2003 NEW DELHI 2516
1J. 2003 NEW DELHI 2282
1K. 2003 NEW DELHI 2041
1L. 2003 US DEL SECRETARY 51
1M. 2003 STATE 123630
1N. 2003 STATE 99494

Classified By: Charge Robert O. Blake, Reasons 1.4 b,d

11. Summary: (C) On April 26, Boeing won a \$8.5 billion order from Air India to supply 50 wide body B777-B787 class aircraft powered by GE engines. Embassy believes it is unlikely that the PIB or the cabinet would reverse the selection, but advises we use high level visits to urge the GOI to quickly approve the sale. We must be prepared to respond quickly and aggressively to Airbus efforts to derail the tender on technical grounds, as Air India has already done in its initial press release by dismissing Airbus' protests of seating configurations and delivery schedules. Boeing officials have told us lessons learned from this sale would be used in developing a new world wide sales strategy to counter Airbus' inroads on commercial aircraft sales. Our attention must now turn to getting Boeing to use its offset requirement of over \$1 billion to build lasting strategic partnerships with Indian companies. The Boeing selection is one more in a long line of indications that the UPA government considers the U.S. its most important relationship. End Summary.

12. (C) Boeing won its biggest commercial aircraft order ever in South Asia on April 26 when state-owned carrier Air India picked Boeing over Airbus to fill a fiercely contested \$8.5 billion order to supply 50 wide body, double aisle aircraft. The order, which includes the new Boeing 787 Dreamliner, consists of three aircraft configurations: 8 Ultra Long Range (250 seats) B777-200LR; 15 Long Range (350 seats) B777-300ER; and 27 Long Range (250 seats) B787-8. The desired schedule for delivery is from 2006-7 through 2012-13. All three aircraft types will be powered by GE engines. We are told that in monetary value this is the largest commercial aircraft deal in the world during the last year. In addition, Boeing late last year won a \$1 billion Air India order for 18 B737-800 aircraft (Ref B).

13. (C) Cabinet Approval: The Civil Aviation Ministry will now chaperone the two Air India procurements through the Public Investment Board (PIB) and Cabinet approval process. Civil Aviation Secretary Ajay Prasad told ECON M/C that he expects the PIB and Cabinet approval process to be completed within 3 months. While the PIB or the cabinet can theoretically reverse the decision, Embassy believes it is highly unlikely these bodies would do so in the absence of some dramatic unforeseen development. Nonetheless, we should urge the GOI to quickly approve the sale. The longer the decision drags on, the greater the opportunity for Airbus to orchestrate a campaign to disrupt the sale.

14. (C) Airbus Reaction: Embassy expects Airbus to protest loudly and claim flaws in the technical evaluation. Boeing and the USG should be prepared to respond quickly and aggressively to such allegations. Even before Air India announced the Boeing award, Airbus wrote the Air India Chairman asking that Boeing be disqualified because its offer of seat configuration and delivery schedules on the B787 were in violation of tender requirements. In its press release on the Boeing selection yesterday, Air India Board responded directly to Airbus' allegation and attempted to close the

door on further protests by noting that there was no truth to the allegations. Charge took the opportunity to suggest to MEA Joint Secretary Jaishankar that the GOI conclude the deal prior to PM Singh's visit to Washington in mid-July. Jaishankar agreed to put this request into the system.

15. (C) Strengthening the State-owned Carriers: Along with the 18 single aisle B737 order last year and a handful of recently leased B777 aircraft, the wide body order represents Air India's first fleet enhancement in over a decade and a half. This contract, when approved, would bring an end to an on-again off-again procurement process that began in 1996. Air India's acquisitions are part of a broader GOI strategy to reform the civil aviation sector and revamp the two state-owned carriers. It has been clear to most observers that unless the GOI and the 2 state-owned carriers moved fast to replenish their fleets, they would fall even further behind their competitors. Prolonged uncertainty about whether to privatize or sell or IPO the carriers had caused them to decay and deteriorate. The new GOI plan is to: strengthen the carriers quickly by expanding their fleet; restore their financial strength and raise their value on the markets; float an IPO on the bourses; and then gradually privatize them completely. The GOI's offer of its sovereign guarantee for fleet expansion is a sign of the urgency and seriousness with which the GOI is committing itself to turning around the carriers.

16. (C) India's Growing Aviation Market: The Indian commercial aircraft market is fast becoming one of Boeing's best and one of the few where Boeing is beginning to trounce Airbus. When the two Air India orders are combined with over \$1 billion in orders from private Indian carriers, Boeing has picked up \$10.5 billion worth of orders in India during the last year. This is several times greater than Airbus' \$2 billion order for 43 A320 aircraft from Indian airlines and a few much smaller orders from private Indian carriers. With the imminent entry of several new start-up airlines in the domestic market and the plans of Jet Airways and Air Sahara to start international service, there is potential for the Indian market to continue to be strong. Some analysts estimate the Indian market could absorb \$25 billion dollars worth of aircraft in the next 20 years. The spending on aviation facilities, equipment, and systems to service this growth could be equally high.

17. (C) The Perfect Campaign: This USG-Boeing effort was well scripted and provided a new paradigm in how to marry USG advocacy with a commensurate level of company commitment at the highest levels. Boeing officials have told us lessons learned would be used in developing a new world wide sales strategy to counter Airbus' inroads on commercial aircraft sales. Embassy believes that the USG played a pivotal role in the campaign. The Embassy felt that large procurements such as this one require multi-pronged strategies. While it is important to nurture the technical interlocutors on technical aspects of the bid (e.g., price, delivery schedules, counter-trade offsets), it is equally if not more important for the company leadership to touch the right political bases at the right levels. We made USG advocacy conditional on two actions by Boeing: an assurance by Boeing that it would make its most competitive offer the first time around; and the visible commitment of the Boeing leadership to the sale. We made clear that the Embassy would not support any effort to reopen or renegotiate terms if Boeing lost the bid on the basis of an uncompetitive offer as it did last year in the Indian Airlines and Air India tenders (Ref B). The Boeing Chairman flew to New Delhi on short notice in December (Ref A) to deliver a strong message to the Indian leadership of the company's long-term commitment to India across the whole range of its businesses. The Boeing Chairman also pledged that the company would make its best and most competitive offer up front. The USG weighed in with the top of the GOI leadership in a multi-pronged advocacy effort in which the economic, political, public affairs and foreign commercial service all contributed.

18. (C) Strategic Relationship: The Boeing selection is significant for the US-India relationship from many angles. Boeing's Indian orders during the last year (\$10.5 billion) are about twice the annual U.S. exports to India (\$5.3 billion in 2004). They will help redress the growing trade imbalance between the two countries. The order for 27 Dreamliner 787s helps strengthen the viability of this new aircraft, on which Boeing has bet heavily. The Boeing sale can also open up good strategic opportunities in India. We understand that the offset requirement could be more than \$1 billion. This requirement could be used by Boeing to enter into strategic partnerships in joint ventures or co-production in the defense and related sectors. The sale also helps to alleviate some of the concerns analysts and policy makers have had on whether the UPA government, with the socialist past of the Congress party and heavy influence of the Left parties, would be able to sustain the momentum of closer US-India relations. The Boeing selection is one more in a long line of indications that the UPA government

considers this its most important relationship. Other recent cases where the UPA government took decisions to move forward the bilateral relationship are: -- Open Skies, Tsunami Relief, Nepal Cooperation, Dabhol, the US-India Economic Dialogue, and the US-India Energy Dialogue.

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